

Message Text

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ACTION AF-08

INFO OCT-01 ISO-00 SP-02 USIA-06 AID-05 EB-07 NSC-05

CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04

SIL-01 L-03 H-02 PA-01 PRS-01 IGA-02 EUR-12 IO-13

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P 201430Z SEP 76

FM AMEMBASSY KINSHASA

TO SECSTATE WASHDC PRIORITY 9685

INFO AMEMBASSY LUSAKA PRIORITY

C O N F I D E N T I A L SECTION 1 OF 2 KINSHASA 7868

LUSAKA PASS SECRETARY'S PARTY

DEPT PASS EXIM, TREASURY, COMMERCE

E.O. 11652: XGDS-2

TAGS: EFIN, CG

SUBJECT: A RECOVERY PROGRAM FOR ZAIRE

REF: (A) KINSHASA 7543; (B) KINSHASA 7811; (C) KINSHASA 7840

(D) OECD PARIS 26809

1. REFS (A) AND (B), WHICH DETAILED OUR ESTIMATES OF ZAIRE'S 1976 BALANCE OF PAYMENTS, PROVIDE WHAT WE CONSIDER TO BE A CONVINCING DEMONSTRATION THAT, FAILING ADDITIONAL RELIEF, ZAIRE'S IMPORT LEVELS ARE BEING CONSTRICTED SO TIGHTLY AS TO IMPAIR ECONOMIC RECOVERY. HAVING PRESENTED THE PROBLEM, WE PROPOSE NOW TO ASSESS THE VARIOUS ALTERNATIVES AVAILABLE TO THE USG TO HELP ZAIRE BRIDGE THE GAP BETWEEN ITS LIMITED FOREIGN EXCHANGE AVAILABILITIES AND ITS MUCH GREATER IMPORT NEEDS. BEFORE ASSESSING THESE ALTERNATIVES, WE EMPHASIZE THAT ANY PROGRAM TO HELP ZAIRE MUST INCLUDE AS AN INTEGRAL

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PART PROVISIONS TO ENSURE A MORE SATISFACTORY IMPLEMENTATION

OF THE STABILIZATION PROGRAM. WE BELIEVE THAT ADDITIONAL SHORT TERM RELIEF CAN PLAY A CRITICAL ROLE IN SETTING THE STAGE FOR A LONGER RUN ECONOMIC RECOVERY BUT THAT THIS WILL HAPPEN IF AND ONLY IF THE GOZ USES THE TIME BOUGHT BY THIS RELIEF TO PUT ITS ECONOMIC HOUSE IN ORDER. (A MORE DETAILED ANALYSIS OF THE GOZ'S PERFORMANCE IN IMPLEMENTING THE STABILIZATION PROGRAM AND OF AREAS REQUIRING IMPROVED PERFORMANCE WAS PROVIDED IN REF C.)

2. THE EMBASSY'S MOST RECENT ESTIMATE OF THE GAP BETWEEN ZAIRE'S FINANCIAL CAPABILITY TO IMPORT AND ITS MINIMAL IMPORT NEEDS IS BETWEEN \$250 AND \$300 MILLION (SEE REF B). THIS GAP COULD BE FILLED BY A COMBINATION OF NEW RESOURCES, PRIVATE RESCHEDULING AND A FURTHER RESCHEDULING OF PUBLIC DEBT. NEW RESOURCES MIGHT BE GENERATED BY ORGANIZING THE CREDITOR GOVERNMENTS AND THE WORLD BANK IN SUPPORT OF A SECURITY NET OF SHORT TERM CREDITS FOR ZAIRE. THE ESSENTIAL ASPECT OF THIS FORMULA WOULD BE TO OBTAIN COMMITMENTS FROM EACH OF THE PUBLIC CREDITORS FOR (A) A SPECIFIED FINANCIAL CONTRIBUTION AND (B) SUPPORT FOR UNIFIED CREDITOR INSISTENCE ON BETTER ZAIRIAN ECONOMIC PERFORMANCE. SUCH AN APPROACH WOULD BUILD ON GROUND ALREADY BROKEN BY MCNAMARA'S JULY LETTER, WHICH EXPRESSED WORLD BANK DISSATISFACTION WITH ZAIRE'S ECONOMIC MANAGEMENT, BUT IT WOULD (A) GIVE GREATER ATTENTION TO THE CARROT OF INCREASED AID AND (B) BE SUPPORTED BY ALL CREDITORS. WE HAVE SURVEYED EACH CREDITOR'S ECONOMIC STAKE IN ZAIRE AND HAVE PREPARED A TABLE ILLUSTRATING OUR IMPRESSIONS OF THE AMOUNTS EACH CREDITOR GOVERNMENT MIGHT BE EXPECTED TO PROVIDE (ALL FIGURES IN MILLIONS OF DOLLARS):

COUNTRY EXPORTS TO OUTSTANDING LOANS PROPOSED AID

ZAIRE - 1973 TO ZAIRE - \$ MIL- ASSESSMENT

	\$ MILLIONS	LIONS	\$ MILLIONS
BELGIUM	\$135	\$144	\$25
GERMANY	99	143	15
FRANCE	62	313	15
JAPAN	52	134	5
		(\$114 UNDISBURSED)	
ITALY	70	166	5
U.K.	39	164	5

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CANADA	2	70	2
		(MUCH UNDISBURSED)	
SOUTH AFRICA	14		10
U.S.	44 (NOW MUCH MORE)		
	620	50	
EUROPEAN DEVELOPMENT			
FUND		10	
IBRD		10	

IMF

50

TOTAL \$207

3. WHILE THIS TABLE IS ONLY ILLUSTRATIVE, IT SHOWS THAT EACH COUNTRY'S ECONOMIC INTERESTS PROVIDE A CONVINCING RATIONALE FOR ITS ASSISTANCE TO ZAIRE. LESS EASY TO QUANTIFY, OF COURSE, IS THE POLITICAL INTEREST WHICH, IN THE PRESENT UNSETTLED ENVIRONMENT OF SOUTHERN AFRICA, IS A MATTER OF OVER-RIDING CONSIDERATION.

4. IF WE WISH TO ACT, WE SHOULD ACT QUICKLY. THE IMF WILL BE SENDING A TEAM TO ZAIRE ON NOVEMBER 14 FOR ARTICLE XIV CONSULTATIONS. IF WE WANT TO PRESENT TO MOBUTU THE ARGUMENT THAT HE MUST TIGHTEN UP HIS ECONOMIC PERFORMANCE IN RETURN FOR INCREASED WESTERN ASSISTANCE, THE NOVEMBER 14 CONSULTATIONS PROVIDE AN IDEAL FRAMEWORK. TO BE READY, WE SHOULD BEGIN CONSULTATIONS WITH THE IMF AND RAISE OUR PROPOSAL WITH THE EXECUTIVE DIRECTORS OF EACH OF THE MAJOR CREDITOR GOVERNMENTS. WE MIGHT ALSO WANT TO SEND SENIOR DEPARTMENT OFFICIALS TO THE VARIOUS CAPITALS OF CREDITOR COUNTRIES TO ASCERTAIN THE AMOUNT OF AID AVAILABLE AND TO CONFIRM THEIR SUPPORT FOR MAKING THE AID CONTINGENT ON MOBUTU'S ACCEPTANCE OF TOUGHER CONTROLS OVER PERFORMANCE, INCLUDING IMF EXPERTS IN KEY POSITIONS IN THE FINANCE DEPARTMENT AND THE BANK OF ZAIRE.

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P 201455Z SEP 76

FM AMEMBASSY KINSHASA

TO SECSTATE WASHDC PRIORITY 9686

INFO AMEMBASSY LUSAKA PRIORITY

C O N F I D E N T I A L SECTION 2 OF 2 KINSHASA 7868

LUSAKA PASS SECRETARY'S PARTY

DEPT PASS EXIM, TREASURY, COMMERCE

5. IT HAS ALSO BEEN PROPOSED THAT ZAIRE'S PUBLIC CREDITORS RESCHEDULE SHORT TERM CREDITS (LESS THAN ONE YEAR) TO ZAIRE. IT MAY AT SOME POINT BE NECESSARY TO CAPITALIZE ZAIRE'S SHORT TERM DEBT AND TO RESCHEDULE IT OVER SEVERAL YEARS BUT WE THINK THAT THIS WOULD BE A CONTENTIOUS STEP THAT SHOULD BE AVOIDED INITIALLY. ACCORDING TO DATA PRESENTED AT THE APRIL MEETING OF THE PARIS CLUB, THE BULK OF THE SHORT TERM DEBT IS HELD BY FRANCE, GERMANY AND BELIGUM. (ITALY PRESUMABLY IS ALSO A LARGE HOLDER OF SHORT TERM DEBT BUT A BREAKDOWN OF ITS EXPOSURE WAS NOT PROVIDED AT THE PARIS CLUB MEETINGS.) U.S. SHORT TERM CREDIT EXPOSURE IN ZAIRE IS, HOWEVER, MINIMAL. IN THESE CIRCUMSTANCES AN INITIAL USG PROPOSAL FOR SHORT TERM RESCHEDULING WOULD UNDERSTANDABLY BE SEEN BY OUR EUROPEAN ALLIES AS AN ATTEMPT TO PUSH ONTO THEM THE BURDEN OF BAILING OUT THE GOZ.

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6. FURTHERMORE, WE HAVE SEEN LITTLE EVIDENCE TO CONVINCE US THAT SHORT TERM CREDITORS ARE FARING SIGNIFICANTLY BETTER THAN LONG TERM LENDERS OR THAT REPAYMENT OF SHORT TERM CREDIT IS A SIGNIFICANT DRAIN ON THE BALANCE OF PAYMENTS. OUR INFORMATION FROM BANK OF ZAIRE SHOWS THAT ARREARAGES ON COMMERCIAL TRANSACTIONS INCREASED FROM ZAIRES 90 MILLION ON JUNE 30 TO ZAIRES 188 MILLION IN THE MIDDLE OF AUGUST. THE BANK OF ZAIRE DATA ON FOREIGN DEBT PAYMENTS MADE BETWEEN JANUARY AND AUGUST 1976 SHOWS THAT THE UNITED STATES HAS BEEN THE BIG WINNER IN TERMS OF RECEIVING DEBT PAYMENTS FROM THE GOZ. THE US RECEIVED ABOUT \$18 MILLION WHILE GERMANY (\$7.9 MILLION), ITALY (\$7.2 MILLION), FRANCE (\$4.6 MILLION) AND BELGIUM (\$0.8 MILLION) FARED LESS WELL. THESE FIGURES MAY NOT BE COMPLETELY COMPREHENSIVE BUT THEY INCLUDE SOME SHORT TERM PAYMENTS INCLUDING THOSE MADE IN ACCORDANCE WITH THE FRENCH AND ITALIAN BILATERAL RESCHEDULING AGREEMENTS.

7. RELIEF FOR ZAIRE ON THE PRIVATE SHORT TERM COMMERCIAL CREDIT MIGHT BE OBTAINED MORE EASILY BY REQUESTING THAT THE CREDITORS CONTINUE TO MAKE SHORT TERM COMMERCIAL CREDIT AVAILABLE TO ZAIRE WHENEVER POSSIBLE. IN THIS REGARD WE SHOULD BE PREPARED TO REVIEW AND LIBERALIZE OUR

OWN POLICY ON THE FACILITATION OF SHORT TERM COMMERCIAL CREDIT THROUGH FCIA GUARANTEES. EXIM'S FAILURE TO ACCORD A NUMBER OF THESE GUARANTEES HAS CAUSED SOME SIGNIFICANT US SUPPLIERS, NOTABLY CATERPILLAR, TO CUT OFF SHIPMENTS TO ZAIRE. WE BELIEVE OUR PARAMOUNT CONCERN IN THE SHORT TERM COMMERCIAL CREDIT AREA SHOULD BE TO ENSURE THAT ZAIRE'S REMAINING CREDIT LINES STAY OPEN SO AS TO PREVENT A COMPLETE CONSTRICTION OF SUPPLIES. THIS WOULD SUGGEST THAT WE ABSTAIN FROM INITIATING PROPOSALS OF SHORT TERM DEBT RESCHEDULING FOR THE TIME BEING. IN THIS REGARD, WE WOULD NOTE THAT DURING THE NEGOTIATION OF THE BELIGIAN-ZAIRIAN BILATERAL, THE ZAIRIAN SIDE PROPOSED THAT THE RESCHEDULING BE EXTENDED TO SHORT TERM, AS WELL AS MEDIUM AND LONG TERM CREDITS. THIS PROPOSAL WAS FLATLY REJECTED BY THE BELGIANS.

8. WE DO SEE A ROLE FOR FURTHER RESCHEDULING AS A COMPONENT IN A PACKAGE OF BALANCE OF PAYMENTS RELIEF FOR ZAIRE OVER
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THE MEDIUM TERM. WE WOULD SUGGEST THAT THE JUNE PARIS AGREEMENT, WHICH CREDITORS (WITH THE POSSIBLE EXCEPTION OF FRANCE) UNANIMOUSLY AGREE ZAIRE CAN NOT HONOR, BE RENEGOTIATED TO PROVIDE SIGNIFICANTLY MORE RELIEF IN 1977 AND 1978. THE OBJECTIVE WOULD BE TO RESCHEDULE PUBLICLY HELD DEBT TO SUCH AN EXTENT THAT ZAIRE WOULD HAVE THE RESOURCES TO PAY OFF PRIVATE LENDERS, THUS OPENING UP THE POSSIBILITY OF NEW PRIVATE CREDITS TO THE ECONOMY.

9. IN THE SHORT RUN, HOWEVER, WE SEE NO ALTERNATIVE TO NEW RESOURCES. WE RECOMMEND THAT THE USG MAKE A MAJOR EFFORT TO MOBILIZE THESE RESOURCES BEFORE THE GOZ'S NOVEMBER CONSULTATIONS WITH THE IMF. WE DO NOT SUGGEST THAT THE COURSE WE ARE PROPOSING IS RISKLESS. THERE IS ALWAYS THE POSSIBILITY THAT WE MIGHT FAIL TO MOBILIZE THE RESOURCES, THAT MOBUTU MIGHT REJECT OUTSIDE CONTROLS OR THAT MOBUTU MIGHT ACCEPT NEW CONTROLS IN PRINCIPLE BUT IGNORE THEM IN PRACTICE. WE THINK, HOWEVER, THAT CONSIDERING THE ALTERNATIVE OF CONTINUED ECONOMIC DRIFT, THE RISKS ARE WORTH RUNNING. FURTHERMORE, IF WE CAN LEARN FROM PAST MISTAKES AND ACT WITH THE UNIFIED SUPPORT OF OUR ALLIES UNDER THE UMBRELLA OF THE IMF AND WORLD BANK, THESE RISKS CAN BE MINIMIZED.

10. REF (D) OUTLINING EC-US PROPOSAL ON DEBT RESCHEDULING WAS RECEIVED WHILE THIS MESSAGE WAS IN THE FINAL DRAFTING PROCESS. WE NOTE WITH INTEREST THE COMPLEMENTARITY BETWEEN OUR IDEAS AND THE PRINCIPLES OF THE EC/US PROPOSAL, PARTICULARLY ITS EMPHASIS ON MESHING RESCHEDULING

AND AID, ON ASSURING EFFECTIVE RESOURCES MANAGEMENT BY THE
DEBTOR COUNTRY AND ON THE CONFINEMENT OF OFFICIAL RESCHEDULING
TO DEBT WITH MATURITIES OVER ONE YEAR.
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